

# CONTRACTING OUT

---

*Implementation of the Contracting Out  
Provision of the Personnel System  
Reform Act of 2002*

Senate Ways & Means Committee

February 11, 2003

# Contracting Out in Washington

Current Law (until July 1, 2005):

- State agencies cannot contract for services if the contract would have the effect of terminating classified employee positions.

# Contracting Out in Washington

New Law (effective July 1, 2005)

Agencies may contract for services IF:

- 1) The agency determines savings will result;
- 2) Measurable performance standards are established;
- 3) Employees may offer alternatives or bid for the work;
- 4) The contractor must consider hiring state employees;
- 5) Contract monitoring process is established.

# Contracting Out in Washington

New Law (effective July 1, 2005):

The new contracting procedures do not apply to:

- 1) Contracts authorized prior to July 1, 2005;
- 2) Contracts between public entities; and
- 3) Contracts expressly authorized by the Legislature.

# “Privatization” Methods

- Service Shedding
- Franchise
- Vouchers
- Subsidy
- Asset Sale or Lease
- Deregulation
- **Contracting Out**

# Historical Nominees

## Liquor Control Board

- *Liquor Sales/Distribution*

## General Administration

- *Custodial Services*
- *Buildings & Grounds Maintenance*
- *Motor Pool/Parking Management*
- *Facilities Management*
- *Real Estate Services/Architectural*
- *Surplus*

# Historical Nominees

## Department of Social & Health Services

- *Eligibility Determination*
- *Child Support Collection*
- *Family Reconciliation Services*
- *Claims Processing*
- *Laundry Services*

# Historical Nominees

## Department of Corrections

- *Correctional Facilities*

## State Parks & Recreation

- *Parks*
- *Campgrounds*
- *Docks*

## Department of Information Services

- *Information Technology Support Services*



# Criteria Used to Choose Candidates for Contracting Out

- Is there a competitive market place?
- Has function been successfully privatized elsewhere?
- Are objective standards available?
- Can performance be measured/monitored?
- Are there default contingencies?
- Can impacts on current employees be mitigated?

# Making Contracting Out Successful

1. Make bidding and selection process competitive and open.
2. Design effective contracts/RFPs.
3. Provide adequate monitoring and oversight.
4. Consider incentives to encourage active use of contracting.
5. Address labor concerns.

# What are the Fiscal Considerations of Contracting Out?

- The Price Difference
- “Scalability”
- Disposal of Existing Assets
- Liability

# What Contributes to the Price Difference?

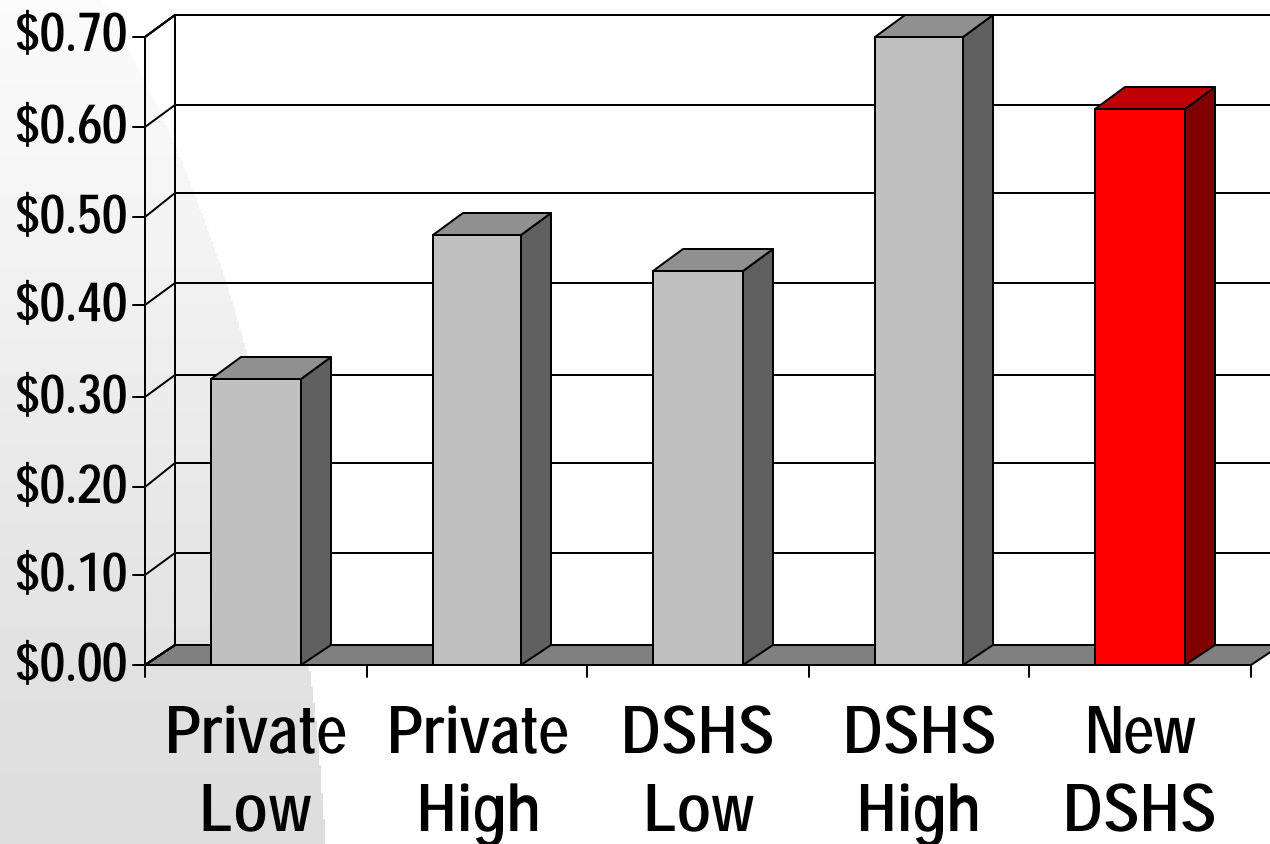
- Competition keeps prices low and quality high.
- Neither a private or public monopoly benefits from Price competition
- A vendor with an exclusive contract that is difficult to re-bid, with significant start up costs for potential competitors has a significant advantage for pushing price up.
- A large purchaser in a competitive market place without significant costs in shifting from one vendor to another has significant advantage for pushing price down.

# Example 1: DSHS Laundry Services

- DSHS has six major laundry facilities in mental health, developmental disabilities & juvenile rehabilitation institutions.
- The six laundries process 8.6 million pounds per year at an operating cost of \$4.4 million and 70 FTEs.
- The facilities are generally “fully depreciated” or obsolete, with some unable to find replacement parts.

# Example 1: DSHS Laundry Services

Price Per Pound



## Example 2: GA Custodial Services

- The Department of General Administration provides custodial services for 24 buildings involving over 2 million square feet.
- They provide a base custodial service for cleaning public spaces, and clean office spaces according to agency-specific contracts.

# Example 2: GA Custodial Services

Annual Cost per Sq. Foot

